

DIGITAL POWER CORP

FORM 10QSB

(Quarterly Report of Financial Condition)

Filed 5/15/1997 For Period Ending 3/31/1997

Address	41920 CHRISTY ST FREMONT, California 94538
Telephone	510-657-2635
CIK	0000896493
Industry	Electronic Instr. & Controls
Sector	Technology
Fiscal Year	12/31

U.S. Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-QSB

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES**
EXCHANGE ACT OF 1934 for the quarterly period ended March 31,
1997

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES**
EXCHANGE ACT OF 1934 for the transition period from _____ to

COMMISSION FILE NUMBER 1-12711

DIGITAL POWER CORPORATION

(Exact name of small business issuer as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

94-1721931
(IRS Employer Identification No.)

41920 Christy Street, Fremont, CA 94538-3158
(Address of principal executive offices)

(510) 657-2635
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such
reports), and (2) has been subject to such filing requirements for the past 90 days. Yes <checked-box> No <square>

Number of shares of common stock outstanding as of March 31, 1997: 2,521,025

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DIGITAL POWER CORPORATION AND SUBSIDIARY CONSOLIDATED BALANCE SHEET

MARCH 31, 1997

ASSETS

CURRENT ASSETS:

Cash	\$ 1,415,671
Accounts receivable - trade, net of allowance for doubtful accounts of \$170,000	2,648,881
Other receivables	191,629
Inventory, net	3,700,413
Prepaid expenses and deposits	59,918
Deferred income taxes	120,700

Total current assets	8,137,212

PROPERTY AND EQUIPMENT, net	780,626
DEPOSITS	21,691

TOTAL ASSETS	\$ 8,939,529
	=====
	LIABILITIES AND STOCKHOLDERS' EQUITY
CURRENT LIABILITIES:	
Current debt	\$ -
Current portion of long-term debt	86,601
Current portion of capital lease obligations	13,547
Accounts payable	1,873,267
Accrued liabilities	1,152,331

Total current liabilities	3,125,746
LONG-TERM DEBT, less current portion	354,111
OBLIGATIONS UNDER CAPITAL LEASE, less current portion	14,830

Total liabilities	3,494,687

COMMITMENTS AND CONTINGENCIES	-
STOCKHOLDERS' EQUITY:	
Series A cumulative redeemable convertible preferred stock, no par value, 2,000,000 shares authorized, 0 shares issued and outstanding	-
Common stock, no par value, 10,000,000 shares authorized, 2,521,025 shares issued and outstanding	8,265,544
Warrants	75,104
Accumulated deficit	(2,455,095)
Unearned employee stock ownership plan shares	(440,711)

Total stockholders' equity	5,444,842

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 8,939,529
	=====

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL POWER CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
REVENUES	\$ 3,799,154	\$ 3,042,103
COST OF GOODS SOLD	2,799,446	2,428,105
	-----	-----
Gross Margin	999,708	613,998
	-----	-----
OPERATING EXPENSES:		
Engineering and product development	206,246	128,407
Marketing and selling	119,061	100,346
General and administrative	227,643	144,479
	-----	-----
Total operating expenses	552,950	373,232
	-----	-----
INCOME FROM OPERATIONS	446,758	240,766
	-----	-----
OTHER INCOME (EXPENSE):		
Interest income	23,187	6,594
Interest expense	(27,760)	(29,072)
Translation loss	(2,200)	(9,542)
	-----	-----
Other income (expense)	(6,773)	(32,020)
	-----	-----
INCOME BEFORE INCOME TAXES	439,985	208,746
	-----	-----
PROVISION (BENEFIT) FOR INCOME TAXES	205,352	96,313
	-----	-----
NET INCOME	\$ 234,633	\$ 112,433
	=====	=====
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	\$ 234,633	\$ 89,591
	=====	=====
NET INCOME PER COMMON SHARE:		
Primary	\$ 0.07	\$ 0.07
	=====	=====
Fully diluted	\$ 0.07	\$ 0.07
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	3,200,365	1,272,366
	=====	=====

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL POWER CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31,	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 234,633	\$ 112,433
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	29,231	22,502
Deferred income taxes	(67,700)	-
Contribution to ESOP	20,417	-
Foreign currency translation adjustment	2,200	9,542
Changes in operating assets and liabilities:		
Accounts receivable	(142,724)	(456,595)
Other receivables	(108,141)	-
Inventory	(868,085)	133,599
Prepaid expenses	(31,182)	(4,030)
Other assets	(4,263)	(3,009)
Accounts payable	452,498	(225,000)
Other accrued liabilities	(48,481)	284,711
Net adjustments	(766,230)	(238,280)
Net cash used in operating activities	(531,597)	(125,847)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(156,503)	(77,058)
Net cash used in investing activities	(156,503)	(77,058)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock and warrants	493,628	-
Proceeds from exercise of stock options	13,500	-
Principal payments on notes payable	(155,896)	(8,679)
Principal payments on capital lease obligations	(3,230)	(2,861)
Proceeds from line of credit	1,990,000	2,660,000
Principal payments on line of credit	(3,187,330)	(2,555,724)
Net cash (used in) provided by financing activities	(849,328)	92,736

DIGITAL POWER CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

**THREE MONTHS ENDED
MARCH 31,**

	1997	1996
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,200)	(9,542)
	-----	-----
NET DECREASE IN CASH	(1,539,628)	(119,711)
CASH AND CASH EQUIVALENTS, beginning of period	2,955,299	302,417
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 1,415,671	\$ 182,706
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for:		
Interest	\$ 40,757	\$ 28,503
	=====	=====
Income taxes	\$ 256,402	\$ 36,000
	=====	=====

SEE ACCOMPANYING NOTES TO THESE CONSOLIDATED FINANCIAL STATEMENTS.

DIGITAL POWER CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

MARCH 31, 1997

(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 1996.

In the opinion of management, the unaudited condensed financial statements contain all adjustments considered necessary to present fairly the Company's financial position at March 31, 1997, results of operations for the three month periods ended March 31, 1997 and 1996 and cash flows for the three months ended March 31, 1997 and 1996. The results for the period ended March 31, 1997, are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 1997.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

With the exception of historical facts stated herein, the matters discussed in this report are "forward looking" statements that involve risks and uncertainties that could cause actual results to differ materially from projected results. Such "forward looking" statements include, but are not necessarily limited to, statements regarding anticipated levels of future revenues and earnings from operations of the Company. Factors that could cause actual results to differ materially include, in addition to other factors identified in this report, a high degree of customer concentration, dependence on the computer and other electronic equipment industry, competition in the power supply industry, dependence on the Guadalajara, Mexico facility, and other risks factors detailed in the Company's Securities and Exchange Commission ("SEC") filings including the risk factors set forth in Company's Registration Statement on Form SB-2, SEC File No. 333-14199. Readers of this report are cautioned not to put undue reliance on "forward looking" statements which are, by their nature, uncertain as reliable indicators of future performance. The Company disclaims any intent or obligation to publicly update these "forward looking" statements, whether as a result of new information, future events, or otherwise.

THREE MONTHS ENDED MARCH 31, 1997, COMPARED TO MARCH 31, 1996.

REVENUES

Revenues increased by 24.9% to \$3,799,154 for the first quarter ended March 31, 1997, from \$3,042,103 for the first quarter ended March 31, 1996. Of this \$757,051 increase in sales, one OEM

customer accounted for \$374,695, or 49.5%. The largest single OEM customer for the current quarter accounted for 8.4% of total revenues compared to 26.6% for the first quarter of 1996. The large OEM accounting for 26.6% of first quarter 1996 revenues has decreased the number of power supplies it purchased from the Company. Further, this OEM indicated that it will require a higher wattage power supply for its new products and that the OEM intends to use a power supply manufacturer other than Digital to manufacture such new higher wattage power supply. Management believes that this OEM will cease purchasing power supplies from the Company after the second quarter of 1997. The Company is seeking to design a new higher wattage power supply to satisfy the needs of this OEM. Further, the Company believes that increased sales to new and other existing OEM customers will offset the loss in sales to the OEM. No assurance can be given, however, that even if the Company is able to design a new higher wattage power supply that satisfies the needs of the OEM, that it will purchase such power supply from the Company, or that the Company will be able to increase sales of power supplies to other OEM's to offset the loss in sales.

GROSS MARGINS

Gross margins were 26.3% for the first quarter ended March 31, 1997, compared to 20.2% for the first quarter ended March 31, 1996. The improvement in gross margins can primarily be attributed to greater capacity utilization and to production improvements due to larger production runs of the US100 series.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses were 9.1% of revenues for the first quarter ended March 31, 1997, compared to 8.0% for the first quarter ended March 31, 1996. The increase in selling, general and administrative expenses was due to increased staffing, salary adjustments and the increased legal and accounting expenses required by public companies for financial and regulatory reporting.

ENGINEERING AND PRODUCT DEVELOPMENT

Engineering and product development expenses were 5.4% of revenues for the first quarter ended March 31, 1997, and 4.2% for the first quarter ended March 31, 1996. This increase in expenses was due primarily to engineering staff additions, salary adjustments and increased consulting fees for advanced development effort.

INTEREST EXPENSE

Interest expense, net of interest income, was \$4,573 for the first quarter ended March 31, 1997, compared to \$22,478 for the first quarter ended March 31, 1996. The decrease in interest was due to reduced borrowings and greater interest income from invested proceeds from the Company's initial public offering.

INCOME BEFORE INCOME TAXES

Income before income taxes increased by \$231,239 from \$208,746 for the first quarter ended March 31, 1996, to \$439,985 for the first quarter ended March 31, 1997. This increase can be attributed to

the improvement in gross margins, which more than offset the increases in the Company's operating expenses.

INCOME TAX

Provision for income tax increased from \$96,000 in the first quarter ended March 31, 1996, to \$205,000 for the first quarter ended March 31, 1997, generally in line with the Company's increase in pre-tax income.

NET INCOME

Net income for the first quarter ended March 31, 1997, was \$234,633 compared to \$112,433 for the first quarter ended March 31, 1996, an increase of 109%. The increase in net income was due to increased revenues and improved gross margins which more than offset increases in operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

Through March 31, 1997, the Company funded its operations primarily through revenues generated from operations, and proceeds from its December 1996 Initial Public Offering. On March 31, 1997, the Company had cash and cash equivalents of \$1,415,671 and working capital of \$5,011,466. This compares with cash and cash equivalents of \$2,955,299 and working capital of \$4,476,555 at December 31, 1996. The increase in working capital is primarily due to an increase in receivables and inventory, offset by an increase in accounts payable and an increase in deferred income taxes. Cash used by operating activities for the Company totaled \$531,597 and \$125,847 for the three months ended March 31, 1997 and 1996, respectively. Cash used in investing activities consisted of expenditures for the purchase of production and testing equipment. Such expenditures increased to \$156,503 during the three months ended March 31, 1997, from \$77,058 during the prior year period. During the three months ended March 31, 1997, cash used in financing activities included net reduction in borrowings of \$1,197,330 offset by proceeds of \$507,128 from the sale of common stock, warrants, and the exercise of stock options. During the three months ended March 31, 1997, the Company's line of credit and bank loans were paid in full. During the three months ended March 31, 1996, cash from financing activities included net borrowings from the Company's line of credit of \$104,276 offset by payments on notes and capital leases of \$11,540.

PART II. OTHER INFORMATION

Items 1, 2, 3, 4, and 5.

Not Applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) 11.1 Computation of Per Share Earnings

27.1 Financial Data Schedule

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGITAL POWER CORPORATION

(Registrant)

Date: May 15, 1997

ROBERT O. SMITH

Robert O. Smith
Chief Executive Officer
(Principal Executive Officer)

Date: May 15, 1997

PHILIP G. SWANY

Philip G. Swany
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 11.1

DIGITAL POWER CORPORATION AND SUBSIDIARY

COMPUTATION OF NET INCOME PER SHARE

	FOR THE THREE MONTHS ENDED DECEMBER 31	
	1997	1996
PRIMARY		
Net income	\$ 234,633	\$ 112,433
Less - preferred stock dividends		\$ 22,842
Net income applicable to common shareholders	\$ 234,633	\$ 89,591
Weighted average number of common shares	2,502,542	963,722
Add - common stock equivalent shares (determined using the treasury stock method) representing shares issuable upon exercise of stock options	437,309	308,644
Add - common stock equivalent shares (determined using the treasury stock method) representing shares issuable upon exercise of warrants	260,543	-
Weighted average number of shares used in calculation of primary income per share	3,200,394	1,272,366
Primary net income per common share	\$ 0.07	\$ 0.07
FULLY DILUTED		
Net income for primary income per share	\$ 234,633	\$ 89,591
Add - preferred stock dividend	\$ -	\$ 22,842
Net income used for fully diluted income per share	\$ 234,633	\$ 112,433
Weighted average number of shares used in calculation of primary income per share	3,200,394	1,272,366
Add - weighted average number of shares issuable upon conversion of preferred stock	-	415,302
Weighted average number of shares used in calculation of fully diluted income per share	3,200,394	1,687,668
Fully diluted net income per common share	\$ 0.07	\$ 0.07

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE 10-QSB FOR THE QUARTER ENDED MARCH 31, 1997, FOR DIGITAL POWER CORPORATION AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD END	MAR 31 1997
CASH	1,415,671
SECURITIES	0
RECEIVABLES	2,818,881
ALLOWANCES	(170,000)
INVENTORY	3,700,413
CURRENT ASSETS	8,137,212
PP&E	1,827,036
DEPRECIATION	(1,046,410)
TOTAL ASSETS	8,939,529
CURRENT LIABILITIES	3,125,746
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	8,265,544
OTHER SE	(2,820,702)
TOTAL LIABILITY AND EQUITY	8,939,529
SALES	3,799,154
TOTAL REVENUES	3,799,154
CGS	(2,799,446)
TOTAL COSTS	(2,799,446)
OTHER EXPENSES	(552,950)
LOSS PROVISION	0
INTEREST EXPENSE	(27,760)
INCOME PRETAX	(439,985)
INCOME TAX	(205,352)
INCOME CONTINUING	(234,633)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(234,633)
EPS PRIMARY	0.07
EPS DILUTED	0.07

End of Filing

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